

B37136

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

SULLIVAN COUNTY COMMUNITY HOSPITAL
A COMPONENT UNIT OF
SULLIVAN COUNTY, INDIANA

January 1, 2009 to December 31, 2009



FILED
06/21/2010

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HOSPITAL OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|---|------------------------------|--|
| Chief Executive Officer | Michelle Sly-Smith | 01-01-09 to 12-31-10 |
| Treasurer | Michelle Sly-Smith | 01-01-09 to 12-31-10 |
| Chairman of the Hospital Board | Donald Hunt Alice M. Dodd | 07-01-08 to 06-30-09 07-01-09 to 06-30-10 |
| President of the Board of County Commissioners | Jim Boes John McCammon | 01-01-09 to 12-31-09 01-01-10 to 12-31-10 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE SULLIVAN COUNTY COMMUNITY
HOSPITAL, SULLIVAN COUNTY, INDIANA

We have audited the accompanying basic financial statements of the Sullivan County Community Hospital (Hospital), and its aggregate discretely presented component unit as of and for the year ended December 31, 2009, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital and its aggregate discretely presented component unit as of December 31, 2009, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

The Hospital has not presented Management Discussion and Analysis, that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

March 11, 2010

SULLIVAN COUNTY COMMUNITY HOSPITAL
A COMPONENT UNIT OF SULLIVAN COUNTY, STATE OF INDIANA
STATEMENT OF NET ASSETS
December 31, 2009

| <u>Assets</u> | <u>Primary Government</u> | <u>Discrete Component Unit</u> | <u>Total Reporting Entity</u> |
|--|-------------------------------|--|---------------------------------------|
| Current assets: | | | |
| Cash and cash equivalents | \$ 1,314,869 | \$ - | \$ 1,314,869 |
| Home health receivables - net | 66,415 | - | 66,415 |
| Employed physicians receivables - net | 57,793 | - | 57,793 |
| Patient accounts receivable, net of estimated uncollectibles of \$4,157,938 | 2,134,740 | - | 2,134,740 |
| Supplies | 314,819 | - | 314,819 |
| Other receivables | 230,803 | - | 230,803 |
| Prepaid expenses | 262,499 | - | 262,499 |
| Noncurrent cash and investments: | | | |
| Internally designated | 13,089,899 | - | 13,089,899 |
| Held by trustee for debt service | 495,201 | - | 495,201 |
| Capital assets: | | | |
| Land | 1,042,227 | 9,583 | 1,051,810 |
| Depreciable capital assets, net of accumulated depreciation | 13,262,568 | 801,401 | 14,063,969 |
| Construction in progress | 30,742 | - | 30,742 |
| Total assets | <u>\$ 32,302,575</u> | <u>\$ 810,984</u> | <u>\$ 33,113,559</u> |
| <u>Liabilities and Net Assets</u> | | | |
| Current liabilities: | | | |
| Current maturities of long-term debt | \$ 585,000 | \$ - | \$ 585,000 |
| Accounts payable | 242,325 | - | 242,325 |
| Accounts receivable credit balances | 138,776 | - | 138,776 |
| Salaries payable | 285,178 | - | 285,178 |
| Payroll taxes and deductions | 192,601 | - | 192,601 |
| Accrued employee benefits | 1,182,504 | - | 1,182,504 |
| Accrued interest payable | 2,300 | - | 2,300 |
| Estimated third-party payor settlements | 390,000 | - | 390,000 |
| Other current liabilities | 7,909 | 21,740 | 29,649 |
| Long-term debt, net of current maturities | 3,501,036 | - | 3,501,036 |
| Total liabilities | <u>6,527,629</u> | <u>21,740</u> | <u>6,549,369</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 10,249,501 | 810,984 | 11,060,485 |
| Restricted: | | | |
| For debt service | 495,201 | - | 495,201 |
| Unrestricted | 15,030,244 | (21,740) | 15,008,504 |
| Total net assets | <u>25,774,946</u> | <u>789,244</u> | <u>26,564,190</u> |
| Total liabilities and net assets | <u>\$ 32,302,575</u> | <u>\$ 810,984</u> | <u>\$ 33,113,559</u> |

The accompanying notes are an integral part of the financial statements.

SULLIVAN COUNTY COMMUNITY HOSPITAL
A COMPONENT UNIT OF SULLIVAN COUNTY, STATE OF INDIANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2009

| | Primary Government | Discrete Component Unit | Total Reporting Entity |
|--|-----------------------|-------------------------------|------------------------------|
| Operating revenues: | | | |
| Net patient service revenue (net of provision for bad debt) | \$ 24,523,168 | \$ - | \$ 24,523,168 |
| Home health revenue | 574,288 | - | 574,288 |
| Hospice revenue | 20,719 | - | 20,719 |
| Other | 584,303 | - | 584,303 |
| | <u>25,702,478</u> | <u>-</u> | <u>25,702,478</u> |
| Total operating revenues | | | |
| Operating expenses: | | | |
| Salaries and benefits | 11,432,029 | - | 11,432,029 |
| Fees - physician | 809,874 | - | 809,874 |
| Fees - other | 1,730,641 | - | 1,730,641 |
| Supplies | 2,307,121 | - | 2,307,121 |
| Utilities | 388,611 | - | 388,611 |
| Repair and maintenance | 766,464 | - | 766,464 |
| Leases and rentals | 104,708 | - | 104,708 |
| Insurance | 261,267 | - | 261,267 |
| Bad debts | 4,083,642 | - | 4,083,642 |
| Other expenses | 554,330 | - | 554,330 |
| Depreciation and amortization | 1,603,381 | - | 1,603,381 |
| | <u>24,042,068</u> | <u>-</u> | <u>24,042,068</u> |
| Total operating expenses | | | |
| Operating income | <u>1,660,410</u> | <u>-</u> | <u>1,660,410</u> |
| Nonoperating revenues (expenses): | | | |
| Interest income - general | 3,122 | - | 3,122 |
| Interest income - funded depreciation | 207,532 | - | 207,532 |
| Interest income - debt service fund | 771 | - | 771 |
| Loss on investments | (5,833) | - | (5,833) |
| Other income | 277,948 | 194,258 | 472,206 |
| Interest expense | (211,626) | - | (211,626) |
| Other expenses | (414,224) | (252,771) | (666,995) |
| | <u>(142,310)</u> | <u>(58,513)</u> | <u>(200,823)</u> |
| Total nonoperating revenues (expenses) | | | |
| Excess (deficiency) of revenues over (under) expenses before capital grants and contributions | 1,518,100 | (58,513) | 1,459,587 |
| Capital transfer in (out) | <u>(68,283)</u> | <u>68,283</u> | <u>-</u> |
| Increase (decrease) in net assets | 1,518,100 | (58,513) | 1,459,587 |
| Net assets beginning of the year | <u>24,256,846</u> | <u>847,757</u> | <u>25,104,603</u> |
| Net assets end of the year | <u>\$ 25,774,946</u> | <u>\$ 789,244</u> | <u>\$ 26,564,190</u> |

The accompanying notes are an integral part of the financial statements.

SULLIVAN COUNTY COMMUNITY HOSPITAL
A COMPONENT UNIT OF SULLIVAN COUNTY, STATE OF INDIANA
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2009

| | |
|---|---------------------|
| Cash flows from operating activities: | |
| Receipts from and on behalf of patients | \$ 21,906,592 |
| Payments to suppliers and contractors | (6,845,404) |
| Payments to employees | <u>(11,382,611)</u> |
| Net cash provided by operating activities | <u>3,678,577</u> |
| Cash flows from capital and related financing activities: | |
| Principal paid on long-term debt | (2,510,000) |
| Interest paid on long-term debt | (225,326) |
| Purchase of capital assets | <u>(1,845,030)</u> |
| Net cash used by capital and related financing activities | <u>(4,580,356)</u> |
| Cash flows from investing activities: | |
| Interest and dividends on investments | 205,592 |
| Purchase of investments | <u>(2,220,437)</u> |
| Net cash used by investing activities | <u>(2,014,845)</u> |
| Net increase in cash and cash equivalents | (2,916,624) |
| Cash and cash equivalents at beginning of year | <u>4,726,694</u> |
| Cash and cash equivalents at end of year | <u>\$ 1,810,070</u> |
| Reconciliation of cash and cash equivalents to the Statement of Net Assets: | |
| Cash and cash equivalents in current assets | \$ 1,314,869 |
| Restricted cash and cash equivalents | <u>495,201</u> |
| Total Cash and Cash Equivalents | <u>\$ 1,810,070</u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 1,660,410 |
| Adjustments to reconcile operating income to net cash flows used in operating activities: | |
| Depreciation and amortization (\$1,603,382 and \$74,420 for the primary government and discrete component unit, respectively) | 1,677,802 |
| Provision for bad debts | (20,729) |
| Increase in current assets: | |
| Patient accounts receivable | 253,060 |
| Home health receivable | 81,920 |
| Employed physicians receivable | (57,793) |
| Supplies | 26,602 |
| Other assets | (180,576) |
| Prepaid expenses | 76,362 |
| Increase (decrease) in current liabilities: | |
| Accounts payable | (114,937) |
| Accounts receivable credit balances | (29,029) |
| Salaries payable | 49,418 |
| Payroll taxes and liabilities | 8,699 |
| Accrued employee benefits | 393,825 |
| Accrued interest payable | (13,700) |
| Estimated third-party payor settlements | (116,006) |
| Other current liabilities | <u>(16,751)</u> |
| Net cash provided in operating activities | <u>\$ 3,678,577</u> |

The accompanying notes are an integral part of the financial statements.

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

Sullivan County Community Hospital (Hospital) is a County-owned facility and operates under the Indiana County Hospital Law, IC 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Board of County Commissioners of Sullivan County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Sullivan County.

The accompanying financial statements present the activities of the Hospital (primary government) and its significant component units. The component unit discussed below is included in the Hospital's reporting entity because of the significance of its operational or financial relationships with the Hospital. Discretely presented component units are involved in the activities of an operational nature independent from the government; their transactions are reported in a separate column in the basic financial statements to emphasize that it is legally separate from the Hospital.

Discretely Presented Component Unit

The SCCH Fitness Center, Inc. is a significant discretely presented component unit of the Hospital. A voting majority of the Center's Board is composed of members of the primary government's administration enabling the primary government to impose its will on the Center. A financial benefit/burden relationship exists between the Hospital and the Center.

A separate audit report is not prepared for the individual component unit.

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of 3 months or less.

Short-term investments are investments with remaining maturities of up to 90 days.

Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Investments in affiliated companies are reported using the equity method of accounting, or at cost, as applicable.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the statement of revenues, expenses, and changes in net assets.

2. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

| | <u>Capitalization Threshold</u> | <u>Depreciation Method</u> | <u>Estimated Useful Life</u> |
|----------------------------|-------------------------------------|--------------------------------|----------------------------------|
| Land improvements | \$ 5,000 | Straight-line | 5 to 20 years |
| Buildings and improvements | 5,000 | Straight-line | 10 to 20 years |
| Equipment | 5,000 | Straight-line | 3 to 10 years |

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

4. Net Assets

Net assets of the Hospital are classified in three components.

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the hospital, including amounts deposited with trustees as required by revenue bond indentures.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

D. Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

E. Operating Revenues and Expenses

The Hospital's Statement of Revenues, Expenses, and Changes in Net Assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

F. Compensated Absences

The Hospital's policy on paid days off (which includes vacation, sick leave, and holidays) allows full-time employees and regular part-time employees to accrue paid days off to a maximum of 76 days.

Paid days off are accrued when incurred and reported as a liability.

II. Detailed Notes

A. Deposits and Investments

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Accounts Receivable

Patient accounts receivable reported as current assets by the Hospital at year end consisted of these amounts:

| Patient Accounts Receivable | |
|---|--------------|
| Receivable from patients and their insurance carriers | \$ 3,842,708 |
| Receivable from Medicare | 896,922 |
| Receivable from Medicaid | 199,572 |
| Unbilled receivables | 1,353,476 |
| Total patient accounts receivable | 6,292,678 |
| Less allowance for uncollectible amounts | 4,157,938 |
| Patient accounts receivable, net | \$ 2,134,740 |

C. Capital Assets

Capital asset activity for the year ended December 31, 2009 was as follows:

| Primary Government | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|--------------|--------------|-------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,180,262 | \$ - | \$ 138,035 | \$ 1,042,227 |
| Construction in progress | 2,475 | 30,401 | 2,134 | 30,742 |
| Total capital assets, not being depreciated | 1,182,737 | 30,401 | 140,169 | 1,072,969 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 16,736,104 | 307,594 | 1,849,358 | 15,194,340 |
| Equipment | 10,163,308 | 3,175,351 | 1,463,755 | 11,874,904 |
| Totals | 26,899,412 | 3,482,945 | 3,313,113 | 27,069,244 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 9,631,022 | 1,529,176 | 364,119 | 10,796,079 |
| Equipment | 3,970,315 | 193,524 | 1,153,242 | 3,010,597 |
| Totals | 13,601,337 | 1,722,700 | 1,517,361 | 13,806,676 |
| Total capital assets, being depreciated, net | 13,298,075 | 1,760,245 | 1,795,752 | 13,262,568 |
| Total primary government capital assets, net | \$ 14,480,812 | \$ 1,790,646 | \$ 1,935,921 | \$ 14,335,537 |

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

| <u>Discretely Presented Component Units</u> | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|--------------------|-------------------|---------------------------|
| Capital assets, being depreciated: | | | | |
| Land improvements | \$ 9,583 | \$ - | \$ - | \$ 9,583 |
| Buildings and improvements | 1,066,797 | 17,600 | - | 1,084,397 |
| Equipment | <u>141,094</u> | <u>-</u> | <u>-</u> | <u>141,094</u> |
| Totals | <u>1,217,474</u> | <u>17,600</u> | <u>-</u> | <u>1,235,074</u> |
| Less accumulated depreciation for: | | | | |
| Buildings, improvements and machinery and equipment | <u>349,670</u> | <u>80,636</u> | <u>6,216</u> | <u>424,090</u> |
| Total discretely presented component unit capital assets, net | <u>\$ 867,804</u> | <u>\$ (63,036)</u> | <u>\$ (6,216)</u> | <u>\$ 810,984</u> |

D. Construction Commitments

Construction work in progress is composed of the following:

| <u>Project</u> | <u>Total Project Authorized</u> | <u>Expended to December 31, 2009</u> | <u>Committed</u> | <u>Required Future Funding</u> |
|----------------------|---|--|------------------|--|
| ER Module - Phase II | <u>\$ 42,355</u> | <u>\$ 30,742</u> | <u>\$ 42,355</u> | <u>\$ 11,613</u> |

E. Operating Leases

The Hospital has entered into an operating lease having initial or remaining noncancelable terms exceeding one year for an electronic medication processing system (Pyxis System). Rental expenditures for this lease were \$74,964. The following is a schedule by years of future minimum rental payments as of year end:

| | |
|-------|-------------------|
| 2010 | \$ 77,124 |
| 2011 | 77,124 |
| 2012 | <u>77,124</u> |
| Total | <u>\$ 231,372</u> |

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Long-Term Liabilities

1. Revenue Bonds

The Hospital issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

| Purpose | Interest Rates | Amount |
|--|----------------|--------------|
| 1998 Indiana Health Facility Financing Authority Revenue Bonds | Variable | \$ 4,295,000 |

Revenue bonds debt service requirements to maturity are as follows:

| Year Ended December 31 | Principal |
|---------------------------|--------------|
| 2010 | \$ 585,000 |
| 2011 | 620,000 |
| 2012 | 655,000 |
| 2013 | 695,000 |
| 2014 | 740,000 |
| 2015-2018 | 1,000,000 |
| Total | \$ 4,295,000 |

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009 was as follows:

| Primary Government | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|-----------|--------------|-------------------|---------------------------|
| Revenue bonds payable: Indiana Health Facility Financing Authority | \$ 6,805,000 | \$ - | \$ 2,510,000 | \$ 4,295,000 | \$ 585,000 |

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Net Revenue Available for Debt Service

The following disclosures concerning net revenue available for debt service applicable to the years ended December 31, 2009, are required by terms of the financing agreement between the Hospital and IHFFA:

| | |
|--|------------------|
| Revenue from operations | \$ 25,702,478 |
| Investment income | 211,425 |
| Less: | |
| Expenses (excluding depreciation, amortization and interest on funded debt) | 22,350,203 |
| Total net revenue available for debt service | \$ 3,563,700 |
| Funded debt service for year | \$ 2,721,626 |
| Historical debt service coverage ratio | 1.31:1 |

G. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$49,535 for 2009.

H. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

Funded Depreciation – Amounts transferred from the Operating Fund by the Hospital Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as authorized by IC 16-22-3-13.

| | |
|---------------------------------|-------------------|
| Internally designated: | |
| Funded depreciation: | |
| Investments | \$ 13,043,616 |
| Accrued interest receivable | 46,283 |
| Total internally designated | \$ 13,089,899 |

I. Adjustments Included in Net Patient Service Revenue

Net patient service revenue includes an audit adjustment of \$ 338,438, which resulted from payments received pursuant to Indiana Medicaid Municipal Hospital Payment Adjustments, Medicaid DSH payments and prior year Medicare cost reports. This adjustment was originally reported by the Hospital as an extraordinary item.

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

IV. Other Information

A. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees and dependents. The risk financing fund is accounted for in the general ledger where expenses are accrued for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$50,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs).

However, claim liabilities cannot be reasonably estimated.

B. Contingent Liabilities

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

C. Postemployment Benefits

In addition to the pension benefits described in Note IV-F, the Hospital provides postemployment health benefits, as authorized by IC 5-10-8, to all employees who retire from the Hospital on or after attaining age 60 with at least 25 consecutive years of service. The Hospital and retiree provide 60% and 40%, respectively, of these postemployment benefits. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2009, there were no retired employee participants.

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and Cash Equivalents

The carrying amount reported in the statement of net assets for cash and cash equivalents approximates its fair value.

Short-Term Investments

The carrying amount reported in the statement of net assets is the investment's fair value on the day it becomes a short-term investment.

Investments

Fair values, which are the amounts reported in the statement of net assets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Accounts Payable and Accrued Expenses

The carrying amount reported in the statement of net assets for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the statement of net assets for estimated third-party payor settlements approximates its fair value.

E. Estimated Third-Party Settlements

Regulations in effect require annual retroactive settlements for third-party settlements based upon cost reports filed by the Hospital. These retroactive settlements are estimated and recorded in the accompanying financial statements. Changes in these estimates are reflected in the year in which they occur. During 2009, net patient service revenues in the accompanying statements of operations were increased by \$33,754 to reflect changes in the estimated settlements for certain prior years.

F. Pension Plan

Defined Contribution Pension Plan

Plan Description

The Hospital has a defined contribution pension plan administered by Principal Financial Group as authorized by IC 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

SULLIVAN COUNTY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Principal Financial Group
P.O. Box 8704
Wilmington DE 19899-8704
Ph. (866) 518-8969

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members may contribute up to \$16,500 of their annual covered salary. The Hospital is required to match one-half of the employee contribution up to 2.5%. In addition, the Hospital is required to contribute 2% of the annual covered payroll. Employer and employee contributions to the plan were \$123,249 and \$445,528, respectively. At year end the Hospital had an accrued benefit payable to the plan of \$134,400.

SULLIVAN COUNTY COMMUNITY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on March 11, 2010, with Michelle Sly-Smith, Chief Executive Officer; Alan Montella, Assistant Administrator of Finance; and Alice M. Dodd, Chairman of the Hospital Board. Our audit disclosed no material items that warrant comment at this time.